

MEETING OF
THE ENERGY MINISTERS OF THE BALTIC SEA STATES
AND THE EUROPEAN COMMISSION
20 NOVEMBER 2002, VILNIUS



Nordic
COUNCIL OF MINISTERS



FOREWORD

The Ministers of Energy of the member countries of the Council of the Baltic Sea States (CBSS) and the European Commission convened for the third time, now in Vilnius, on 20 November 2002. The meeting adopted a Communiqué that defines the guidelines for BASREC, the Baltic Sea Region Energy Cooperation, for the next three-year period.

The major decision of the meeting was to found in the Baltic Sea region a testing ground for joint implementation in accordance with the Kyoto Protocol. The Group of Senior Energy Officials (GSEO) was tasked with finalising the preparations for the testing ground, to allow the start-up of the activities with concrete projects in 2003.

The testing ground and the supporting financing facility would create opportunities for new energy investments to reduce emissions of greenhouse gases. This would also offer the participating countries a period for capacity building before the beginning of the Kyoto commitment period in 2008.

In addition to climate policy issues, BASREC work concentrates on activities concerning the electricity and gas markets, energy efficiency and the use of renewables, especially bioenergy. The goal is effective and sustainable development of the energy market in the region.

BASREC works in close cooperation with the energy industry. At this stage – as new members from the Baltic

Sea region have now access to the European Union – it is an asset for the industry, the EU Member States, the joining members and the third countries to have a regional forum where energy market developments and the possibilities for more sustainable energy systems can be analysed and new initiatives promoted.

There is still quite a lot of work in building bridges over the barriers of the past disintegration of Europe. EU membership may solve many problems, but in order to take advantage of the new possibilities and to avoid the generation of new barriers and problems, good connections and a common forum for the neighbouring countries are needed.

The Energy Ministers and the European Commission stressed in Vilnius the importance of the security of energy supply in the Baltic Sea region and emphasised the need of investments and active work for establishing safe and sufficient energy transmission systems in the whole region. Integration of the electricity and gas markets would bring economic benefits to all countries in the region. At the same time, investments in new technology and the diversification of energy production aiming at reducing greenhouse gas emissions would imply increased use of renewable energy sources and natural gas, as well as improvements in energy efficiency.

The parties confirmed their will to continue the cooperation during the new three-year period 2003 to 2005, in order to work further on developing effective, economi-

cally and environmentally sound energy systems in compliance with the principles of sustainable development.

During the first cooperation period 2000–2002, the BASREC member countries, the Baltic Gas and the Energy Charter Secretariat contributed to the BASREC work, whereas the European Commission gave its support to the BASREC 2002 project. The main financiers, the Nordic Council of Ministers and the EU SYNERGY programme, deserve a special commendation for their contributions. As an ad-hoc organisation, BASREC has no regular financing base of its own. Voluntary contributions and financial support from member countries and international organisations are therefore welcomed also for the activities of the next mandate period 2003–2005.

I would like to thank all participants, and especially our Lithuanian hosts, for a productive meeting. There is good reason to believe that the new assignment and our guidelines for organising and implementing the work in coordination with other international energy organisations will produce concrete results that the energy ministers can consider and elaborate at their next meeting – possibly in 2005.

Helsinki, January 2003



Sinikka Mönkäre

Minister of Trade and Industry, Finland

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MEETING OF THE ENERGY MINISTERS OF THE BALTIC SEA STATES AND THE EUROPEAN COMMISSION

4

9.00 Opening

AGENDA

1. Adoption of the agenda

2. Energy issues in the Baltic Sea Region

- Electricity and gas markets
 - Gas markets
 - Electricity markets
 - Gas and electricity markets
- Energy efficiency, CHP and bioenergy
 - Energy efficiency
 - CHP and bioenergy
- Security of supply
- EU–Russia energy dialogue
- Energy policy targets of the EU in the Baltic Sea Region
- ND Policy in the energy sector

10.30 Greeting of Prime Minister Algirdas Mykolas Brazauskas

3. Baltic Sea Region Testing Ground for implementing the flexible mechanisms of the Kyoto Protocol

- Agreement between the Governments on a Testing Ground for Application of the Kyoto Mechanisms on the Energy Projects in the Baltic Sea Region

4. Conclusions and adoption of the Communiqué

12.00 – 12.30 Press Conference

COMMUNIQUÉ

The Ministers of Energy of the Council of the Baltic Sea States and the European Commission (the BASREC parties) met in Vilnius, Lithuania, on 20 November 2002. The meeting was a continuation to the work endorsed in the conferences of the ministers of energy of the Baltic Sea States in 1998 in Stavanger and in 1999 in Helsinki.

The delegations of Belgium, Italy, United Kingdom, the European Council Secretariat, the Energy Charter Secretariat, the International Energy Agency, the Council of the Baltic Sea States, the Nordic Council of Ministers, Belarus, Slovakia, European Investment Bank, Nordic Investment Bank, European Bank for Reconstruction and Development, Nordic Environment Finance Corporation and Baltic 21 attended the meeting as observers.

The meeting was organised at the call of the chairperson of the Baltic Sea Region Energy Co-operation (BASREC), the Finnish Minister of Trade and Industry Dr. Sinikka Mönkäre and the Lithuanian Minister of Economy Mr. Petras Čėsna in order to evaluate the results of the Baltic Sea Region (BSR) energy co-operation in the years 2000 – 2002, to discuss methods to promote sustainable energy supply and demand and the further integration of regional energy markets and to decide on future co-operation within BASREC.

The conclusions of the 4th Baltic Sea States Summit of 10 June 2002 indicated that the results gained so far in BASREC, being one of the most important instruments to fulfill the intention of the EU Northern Dimension Policy, are promising.

At their meeting on 20 November 2002, the BASREC parties confirmed their will to continue and intensify their co-operation in order to further develop effective, economically and environmentally sound energy systems in the BSR in accordance with the principles of sustainable development.

The BASREC parties reviewed the results achieved so far and the organisation of the activities agreed upon in their previous conference in Helsinki in 1999. The BASREC parties took note of the report prepared by the Group of Senior Energy Officials (GSEO) on BASREC 2000 – 2002 and stated:

- The organisation of BASREC was established in accordance with the decisions taken at the previous conference of the ministers of energy and the European Commission in Helsinki on 24 October 1999, with a Group of Senior Energy Officials (GSEO) as the responsible body and assisted by a secretariat.
- Under GSEO four *ad hoc* groups, chaired by different CBSS member countries, and one task force prepared the proposals for the GSEO and also acted as a steering group for the 15 separate tasks of the Synergy project BASREC 2002.
- As decided in Helsinki 1999, the Nordic Council of Ministers and the European Commission were the main sources of financing of the activities.
- Further, the BASREC parties supported the activities both financially and with in-kind contributions.
- The regional co-operation organisation has been a useful framework for the monitoring and development of

energy policy in a period of rapid changes in energy markets, and as the interdependence of the BSR countries as regards energy supply is growing. BASREC has created an effective contact network between the governments, business actors and the European Commission in the energy sector.

- Some energy market development processes will need further common analysis and preparatory work in order to create a solid base for enhancing the framework conditions of investments and energy trade.

The BASREC parties confirmed that the activities undertaken represent professional and creative co-operation between authorities, administrative bodies, organisations and energy market actors in the region. It is important to recognise that objectives of this co-operation will have to be implemented step by step.

The BASREC parties emphasised that the energy sector is an essential ingredient of economic development and welfare in any country, which requires access to a secure, affordable and environmentally sound energy sources. The BASREC parties underlined the importance of economic and environmental advantages of the co-operation in the field of energy and that differences in energy supply mix and structures form an excellent basis for further co-operation.

The changes in the EU energy markets and the upcoming EU enlargement will influence the future energy trade and will provide new opportunities and challenges for the energy sector in the region. The new market conditions and structures must be thoroughly investigated and made good use of.

In line with overall global and regional developments, the energy markets in the region are currently undergoing significant changes. It is important that a stable framework and a level playing field for the market participants are created. It is the task of the governments and administrative bodies to develop and, as necessary, harmonise the legislation, administrative practices and framework conditions in a way that facilitates efficient energy exchange, use and production.

The framework conditions should be designed to improve the functioning of markets and trade. The companies' role is – even in rapidly changing conditions – to exploit the possibilities for trade, to invest and build up capacity and technology, and to develop international co-operation networks and alliances needed. A common task for companies and governments is to create rules and regulations, environmental standards, as well as efficiency and interoperability mechanisms that flexible and effective international energy transmission calls for.

The BASREC parties underline the need for a governmental role in order to promote the integration of energy markets in the BSR, to reduce environmental impacts of energy supply and use and thus facilitate the exploitation of the regional potential for environmental improvements. It is imperative to address all key issues from a regional perspective in order to meet the challenges in the region as well as the global issues in the most effective way. To that end BASREC will, *inter alia*, continue to work with the Baltic 21 energy sector in an integrated and co-ordinated way.

We, the ministers of energy of CBSS, and the European Commission recognise

- the need to focus on security of supply within the region as a whole in the years to come.
 - the need for considerable investments in a new energy transmission infrastructure in order to integrate separate gas and electricity markets in the region and to note important initiatives in this sector, such as the Baltic Ring, TEN priority projects and projects of common interest of the European Union. Furthermore, it is important that the legal frameworks, where appropriate, allow the Transmission System Operators (TSO) to provide appropriate funds in order to get a new transmission infrastructure developed in the region.
 - the need for an active work in appropriate CBSS sector organisations and the Helsinki Commission (HELCOM) to develop safe and secure energy transport systems in the Baltic Sea region in the conditions of increasing energy trade in order to limit the environmental impacts and risk for hazards as proposed by the ministerial conference on “Security of energy supply in the Baltic Sea region in the context of European Union Enlargement” in Ventspils, Latvia, on 27 September 2002.
 - the importance of stable, transparent and non-discriminatory legal and regulatory frameworks relating to investments in new production and transmission capacity and energy trade. It is important, where appropriate, that barriers should be removed.
 - the necessity to reduce the lead-times for authority approvals in connection with establishing new production capacity as appropriate.
- that energy technology research and development are essential for achieving energy security, environmental protection and economic growth. Long-term research and development should be supported and the participation of industry should be encouraged. The need for increased co-operation between the scientific institutions in the region is emphasised.
 - the need for support for the introduction and utilisation of renewables and other environmentally sound fuels. That is also an effective means to diversify energy sources in order to increase the security of supply and to reduce environmental impacts.
 - that the BSR has a large potential for profitable investments in the production and use of renewable energy sources and in energy efficiency.
 - that to enhance financing of small-scale investments in energy efficiency and in the use of renewables the possibilities of financing through the Northern Dimension Environmental Partnership should be considered.
 - that energy efficiency contributes to the objectives of security of supply, to reduced environmental impacts of energy production and to fulfillment of the Kyoto Protocol commitments and should be an integrated part of energy policy at all levels.
 - that international exchange of information and co-operation concerning new methods to promote energy efficiency, and the monitoring and evaluation of developments nationally and internationally should be encouraged, noting that the national policies, strategies, and activities are important.

- the need for further co-operation in energy efficiency at regional, national, and European level in order to develop actions, measures, and capacity building and to avoid overlapping and duplication of efforts.
- that the establishment of an international market for green certificates could be an applicable method for promoting development of renewable energy sources.
- the importance of more committed co-operation between the system operators in the BSR and underline the importance of unbundling transmission and distribution system operators from the commercial interests of the production, trade and supply of electricity.
- the importance of including Northwest Russia and the Kaliningrad region of Russia in the process of integrating and liberalising the energy markets around the BSR. This integration process must be seen together with the Energy Charter process, the EU–Russia energy dialogue and the Northern Dimension Action Plan of the EU.

Recalling our common opinion in the Helsinki Conference of the Ministers of Energy in 1999 that

“further work should be done with a view to make a decision on a Baltic Sea region testing ground for international co-operation in the use of flexible mechanisms“

and noting that at the summit in St. Petersburg in June 2002, the Heads of Government of the Council of the Baltic Sea States stated that

“the ambition to develop the Baltic Sea Region into a testing ground for flexible mechanisms under the Kyoto Protocol should now be fulfilled”

we, the BASREC parties

- *welcome* the substantial progress made in implementing the Testing Ground framework, which has met wide acceptance in our countries, as well as the establishment of the Testing Ground Facility, both to be operative in 2003.
- *recognise* that establishing the Testing Ground, as well as future activities in this field, at an early stage will deliver the necessary contributions to demonstrate the opportunities of Joint Implementation activities in the BSR, to promote capacity building and to enhance common understanding of the Kyoto mechanisms, their implementation and application,
- *recognise* the evident regional potential in the implementation of the BSR Testing Ground, *stress* the importance of increased interaction with actors within the energy field, and *believe* that international co-operation through the Joint Implementation mechanism serves as an excellent tool for achieving cost efficient emission reductions.

For these reasons we

- *decide* to establish the Testing Ground in the BSR with the objectives
 - to build capacity and competence to use the Joint Implementation (JI) mechanism under the Kyoto Protocol and to promote the realisation of high quality projects in the energy sector generating emissions reductions,

- to develop methods and procedures in conformity with the rules and guidelines of the Kyoto Protocol,
- to collaborate in addressing administrative and financial barriers, and to minimise transaction costs, especially regarding small scale JI projects,
- to facilitate generation, ensure issuance and transfer of greenhouse gas credits related to or accruing from JI projects, and to implement projects early and offer credit for emissions reductions prior to 2008 by appropriate means.

We, the BASREC parties

- *welcome* interested parties to the Kyoto Protocol to join the Testing Ground.
- *state* that participation in the activities on the Testing Ground for the BSR should involve public and private entities in particular in the BSR States, and encourage business, industries, energy utilities, financial institutions, regional and local authorities to take an active role in the activities.
- *commit* us as representatives of our governments to undertake all efforts to finalise the existing work and the legal procedures needed in our countries in an expeditious way, thus enabling the Testing Ground to become operative as early as possible in 2003, and
- *give* the Group of Senior Energy Officials the task to assure the prompt finalisation of the preparatory work by April 2003.

Financing of the BSR Energy co-operation should be obtained through voluntary contributions from all BASREC parties. Since BASREC is important for the

realisation of the energy sector work in the Northern Dimension Action Plan of the EU the opportunities to submit applications for funding from relevant EU programmes may be utilised.

The BASREC parties welcome the information from the Nordic Council of Ministers to contribute to the financing of BSR Energy Co-operation for the next working period 2003 – 2005.

Finally the BASREC parties, recalling the statement from the 4th Baltic Sea States Summit of 10 June 2002, where the Ministers of Energy were urged to facilitate efforts to integrate national energy systems through harmonisation and development of policies, as well as the Northern Dimension Action Plan for 2000 – 03 of the Feira Summit, welcoming the task from the Luxembourg meeting for the European Commission to prepare a new proposal for a Northern Dimension Action Plan for 2004 – 06.

- *confirmed* their will to continue and intensify their co-operation in the areas of electrical energy, gas, climate change, renewables and energy efficiency as recognised and recommended in this Communiqué. The GSEO is assigned to organise the work for the implementation the recommendations agreed upon, seek the financing needed for the fulfillment of the tasks, and secure a good co-ordination of the work with international energy organisations and adequate reporting.

The BASREC parties will meet when necessary but not later than in the year 2005.

КОММЮНИКЕ

Министры энергетики стран, входящих в Совет государств Балтийского моря, и представители Европейской Комиссии встретились в Вильнюсе, Литва, 20 ноября 2002 года. Настоящее заседание явилось продолжением работы, одобренной на Конференциях Министров энергетики государств Балтийского моря в 1988 году в Ставангере и в 1999 году в Хельсинки.

Делегации Бельгии, Италии, Великобритании, Секретариата Европейского Совета, Секретариата Энергетической Хартии, Международного Энергетического Агентства, Совета государств Балтийского моря, Совета министров северных стран, Беларуси, Словакии, Европейского инвестиционного банка, Северного инвестиционного банка, Европейского банка реконструкции и развития, Северной природоохранной финансовой корпорации и "Балтики XXI" приняли участие в заседании в качестве наблюдателей.

Заседание было организовано по призыву Председателя БАСРЕК (сотрудничество в области энергетики в Балтийском регионе), Министра торговли и промышленности Финляндии доктора Синикки Мёнкэре и Министра экономики Литвы г-на Петраса Чесны для оценки результатов сотрудничества в области энергетики в Регионе Балтийского моря (РБМ) за период 2000 – 2002 гг., обсуждения способов поддержки устойчивого спроса и предложения на энергию и дальнейшей интеграции энергетических рынков, а также решения вопросов сотрудничества в рамках БАСРЕК в будущем.

Итоги четвертого Саммита государств Балтийского моря, состоявшегося 10 июня 2002 года, свидетельствуют о многообещающем характере результатов, достигнутых на текущий момент в рамках БАСРЕК, который является одним из наиболее важных

инструментов по выполнению программы ЕС "Северное измерение".

На своем заседании 20 ноября 2002 года стороны БАСРЕК подтвердили намерение продолжать и активизировать свое сотрудничество в целях дальнейшего развития эффективных, экономически и экологически чистых энергетических систем в РБМ в соответствии с принципами устойчивого развития.

Стороны БАСРЕК рассмотрели достигнутые на текущий момент результаты и организацию своей деятельности, согласованные на предыдущей конференции в Хельсинки в 1999 году. Стороны БАСРЕК приняли к сведению отчет, подготовленный Группой старших должностных лиц (ГСДЛ) по сотрудничеству в области энергетики (БАСРЕК) за период 2000-2002 гг. и заявляют:

- Организация БАСРЕК была учреждена в соответствии с решениями предыдущей конференции Министров энергетики и Европейской Комиссии в Хельсинки 24 октября 1999 года, причем Группа старших должностных лиц (ГСДЛ) является ответственным органом, которому оказывает содействие в работе ее секретариат.
- В рамках ГСДЛ четыре целевые группы, в которых председательствуют различные страны-члены СГБМ, и одна специальная группа готовили предложения для ГСДЛ, а также выступали в качестве подготовительной группы для выполнения 15 отдельных заданий по проекту БАСРЕК 2002 программы СИНЕРДЖИ.
- Как было решено в Хельсинки в 1999 году, Совет Министров северных стран и Европейская Комиссия являлись основными источниками финансирования указанной деятельности.
- Кроме того, стороны БАСРЕК оказывали поддержку

указанной деятельности как в финансовом плане, так и взносами в натуральной форме.

- Организация регионального сотрудничества является полезной структурой для наблюдения за энергетической политикой и её развитием в период резких изменений на энергетических рынках во время роста взаимной зависимости стран РБМ в отношении поставок энергии. БАСРЕК создал эффективную структуру контактов между правительствами, деловыми кругами и Европейской Комиссией в энергетической сфере.
- Для создания прочной основы улучшения рамочных условий инвестиций и энергетической торговли потребуются дальнейший общий анализ и подготовительная работа в отношении процессов развития ряда энергетических рынков.

Стороны БАСРЕК подтвердили, что предпринятые действия отражают профессиональное и творческое взаимодействие между властями, органами управления, организациями и игроками на энергетическом рынке региона. Важно осознавать, что цели этого сотрудничества следует достигать поэтапно.

Стороны БАСРЕК особо отметили, что энергетика является существенной составной частью экономического развития и благосостояния любой страны, которой необходимы надежные, доступные и экологически чистые источники энергии. Стороны БАСРЕК подчеркнули значение экономических и экологических преимуществ такого сотрудничества в области энергетики, а также то, что различия в балансах поставок и структур энергоносителей образуют превосходную основу дальнейшего сотрудничества.

Изменения на энергетических рынках ЕС и грядущее расширение ЕС окажут воздействие на энергетическую торговлю в будущем и создадут новые возможности и вызовы для энергетики региона. Следует тщательно изучить и найти оптимальное применение новым рыночным условиям и структурам.

Одновременно с глобальными и региональными событиями происходят значительные изменения на энергетических рынках региона. Важно, чтобы создавались устойчивые и равные условия для участников рынка. Задачей правительств и органов управления является разработка и, в случае необходимости, гармонизация законодательства, административной практики и рамочных условий с тем, чтобы облегчить эффективный обмен, использование и производство энергии.

Следует формировать рамочные условия для оптимизации функционирования рынков и торговли. Роль компаний заключается – даже в условиях резких перемен – в использовании возможностей для торговли, инвестировании и наращивании мощностей и технологий, а также разработке систем и объединений международного сотрудничества. Общая задача компаний и правительств состоит в создании правил и положений, природоохранных стандартов, а также механизмов эффективности и взаимодействия, что является необходимым требованием для гибкой и эффективной передачи энергии.

Стороны БАСРЕК подчеркивают необходимость участия государств в содействии интеграции рынков энергии в РБМ, снижении воздействия поставок энергоносителей на окружающую среду и тем самым облегчении использования потенциала региона в вопросе улучшения состояния окружающей среды. Для наиболее эффективного решения как региональных, так и глобальных проблем необходимо рассматривать все ключевые вопросы с региональной позиции. С этой целью БАСРЕК будет, помимо прочего, согласованно и комплексно продолжать работу с энергетической частью "Балтики XXI".

Мы, Министры энергетики СГБМ и Европейская Комиссия признаем

– необходимость внимания к вопросу надежности поставок в пределах региона в будущем;

- необходимость вкладывать значительные инвестиции в новую инфраструктуру по передаче энергии в целях интеграции отдельных газового и электроэнергетического рынков в регионе и отметить важные инициативы в этом секторе, такие как Балтийское энергетическое кольцо, приоритетные проекты ТЕН, а также проекты ЕС, представляющие взаимный интерес. Более того, важно, чтобы правовые пределы в надлежащих случаях позволяли операторам передающей системы (ОПС) создавать соответствующие фонды для обеспечения развития новой инфраструктуры передачи энергии в регионе;
- необходимость активной работы в соответствующих подразделениях СГБМ и Хельсинской Комиссии (ХЕЛКОМ) в целях разработки надежных и безопасных систем транспортировки энергоносителей в регионе Балтийского моря в условиях активизации торговли энергоносителями и в целях ограничения опасностей и неблагоприятного воздействия на окружающую среду, что было предложено на конференции министров по "Надежности поставок энергоносителей в регионе Балтийского моря в свете расширения Европейского союза" в Вентспилсе, Латвия, 27 сентября 2002 г.;
- важность прочных, прозрачных и не дискриминационных нормативно-правовых основ, относящихся к инвестициям в новые производственные и передающие мощности и энергетическую торговлю. Важно, чтобы в надлежащих случаях были удалены барьеры;
- необходимость сокращения сроков согласования властями в тех случаях, где это уместно, создания новых производственных мощностей;
- что научно-исследовательские работы в области энергетических технологий весьма существенны для достижения энергетической надежности, защиты окружающей среды и экономического роста. Следует осуществлять поддержку долгосрочным научно-исследовательским работам и поощрять участие в них компаний. Особо подчеркивается необходимость активизации сотрудничества между научно-исследовательскими учреждениями региона;
- необходимость поддержки внедрения и использования возобновляемых источников энергии и других экологически приемлемых видов топлива, что также является эффективным средством диверсификации источников энергии с целью усиления надежности поставок и снижения ущерба окружающей среде;
- что в РБМ имеется значительный потенциал для рентабельных инвестиций в производство и использование возобновляемых источников энергии и энергоэффективность;
- что в целях усиления финансирования небольших инвестиций в энергоэффективность и использование возобновляемых источников энергии следует рассмотреть возможности финансирования через Природоохранное Товарищество программы "Северное Измерение";
- что энергоэффективность способствует целям надежности поставок, ограниченному негативному воздействию на окружающую среду и выполнению обязательств по Киотскому протоколу, и что она должна быть неотъемлемой частью энергетической политики на всех уровнях;
- что следует поощрять международный обмен информацией и сотрудничество в области содействия новым способам развития энергоэффективности, а также контроль и оценку событий в национальном и международном масштабе, отмечая при этом важность национальной политики, стратегии и деятельности;
- необходимость дальнейшего сотрудничества в области энергоэффективности на региональном, национальном и европейском уровне для проработки

действий, мероприятий и наращивания потенциала, а также избежания ненужного дублирования этой работы;

- что образование международного рынка зеленых сертификатов может быть приемлемым способом содействия разработке возобновляемых источников энергии;
- важность более активного сотрудничества между системными операторами в РБМ и подчеркиваем значение разграничения деятельности операторов передающих и распределительных систем от промышленного производства, торговли и поставок электроэнергии;
- важность включения Северо-Западного региона России и Калининградской области России в процесс интеграции и либерализации энергетических рынков вокруг РБМ. Указанный интеграционный процесс должен рассматриваться вкрупне с процессом Энергетической Хартии, энергодиалога ЕС-Россия и Планом действий ЕС по Северному измерению.

Возвращаясь к нашему общему мнению, выраженному на Конференции Министров энергетики в Хельсинки в 1999 г., о том, что:

необходимо продолжить дальнейшую работу, исходя из принятия решения по созданию в регионе Балтийского моря испытательного полигона для осуществления международного сотрудничества в использовании механизмов гибкости"

и отмечая, что на Саммите в Санкт-Петербурге в июне 2002 г. главы правительств Совета государств Балтийского моря заявили о том, что:

"следует выполнить задачу превращения региона Балтийского моря в испытательный полигон механизмов гибкости согласно Киотскому протоколу",

мы, стороны БАСРЕК

- *приветствуем* существенный прогресс, достигнутый в осуществлении соглашения о полигоне для испытания механизмов Киотского протокола, которое получило широкое признание в наших странах, а также учреждение Фонда Полигона, оба из которых начнут действовать в 2003 г.;
- *признаем*, что образование Полигона для испытания механизмов Киотского протокола, а также деятельность в этой области в будущем создаст на ранней стадии необходимый вклад для демонстрации возможностей по проектам совместного осуществления в РБМ с целью содействия накоплению потенциала и усилению общего понимания механизмов Киотского протокола, их осуществления и применения;
- *признаем* очевидный региональный потенциал в образовании Полигона для испытания механизмов Киотского протокола, подчеркиваем значение повышения взаимодействия с участниками энергетической сферы и считаем, что международное сотрудничество через посредство механизмов совместного осуществления является превосходным средством достижения рентабельного сокращения выбросов.

Исходя из этих соображений, мы

- *приняли решение* образовать Полигон для испытания механизмов Киотского протокола в РБМ в целях:
 - накопления потенциала и знаний для использования механизмов совместного осуществления (СО) согласно Киотскому протоколу и способствования реализации высококачественных проектов по сокращению выбросов в области энергетики;
 - разработки способов и процедур в соответствии с правилами и основными положениями Киотского протокола;
 - сотрудничества в преодолении административных и финансовых барьеров и снижения операционных

издержек, особенно в отношении малых проектов СО;

- способствования соответствующими средствами образованию, обеспечению выдачи и перечислению кредитов по парниковым газам, относящихся к проектам СО или накопленных в их рамках, а также ранней реализации проектов и предложения кредитов на сокращение выбросов в период до 2008 г.

Мы, стороны БАСРЕК:

- *приглашаем* стороны, заинтересованные в Киотском протоколе, принять участие в функционировании Полигона;
- *заявляем*, что в деятельности в рамках Полигона для испытания Киотских механизмов в РБМ следует принимать участие физическим и юридическим лицам, особенно в странах РБМ, а также следует способствовать деловым и промышленным кругам, энергетическим предприятиям, финансовым институтам, региональным и местным властям в осуществлении активной деятельности в рамках Полигона;
- *поручаем* Группе старших должностных лиц оперативно закончить подготовительную работу к апрелю 2003 г;
- принимаем на себя как представителей правительств обязательства предпринять все возможные усилия к наиболее результативному окончанию текущей работы и правовых процедур, необходимых в наших странах, способствуя тем самым вводу в действие Полигона для испытания механизмов Киотского протокола как можно ранее в 2003 г.

Финансирование сотрудничества в области энергетики в Балтийском регионе следует осуществлять посредством добровольных взносов от всех сторон БАСРЕК. Ввиду того, что БАСРЕК является важным фактором

реализации работы в области энергетики в рамках Плана действий ЕС по Северному измерению, целесообразно использовать возможности подачи заявок на финансирование со стороны соответствующих программ ЕС.

Стороны БАСРЕК приветствуют сообщение Совета Министров Северных стран о его вкладе в финансирование сотрудничества в области энергетики в РБМ в следующем рабочем периоде 2003-2005 гг.

Наконец, стороны БАСРЕК, возвращаясь к заявлению четвертого Саммита Совета государств Балтийского моря, состоявшегося 10 июня 2002 г., согласно которому Министров энергетики призвали активизировать усилия по интеграции национальных энергетических систем посредством разработки и согласования политической линии, а также к Плану действий по Северному измерению на период 2000-2003 гг., принятому на Саммите в Фейре, приветствуя поручение Люксембургского заседания Европейской Комиссии подготовить новое предложение к Плану действий по Северному измерению на период 2004-2006 гг.:

- *подтвердили* свое твердое намерение продолжать и активизировать свое сотрудничество в области электроэнергетики, газа, изменения климата, возобновляемых источников энергии и энергоэффективности, что признает и рекомендует настоящее Коммюнике. Организация работы по выполнению согласованных рекомендаций, поиск средств финансирования, необходимого для выполнения поставленных задач, а также обеспечение надлежащей координации работы с международными энергетическими организациями и соответствующая отчетность возлагаются на ГСДЛ.

Стороны БАСРЕК проведут свое следующее заседание, когда это будет необходимо, но не позднее 2005 года.

REPORT BY THE GROUP OF SENIOR ENERGY OFFICIALS (GSEO)

for the Meeting of the Energy Ministers of the CBSS Member Countries and the European Commission

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1 Mandate and tasks of BASREC GSEO

The first Conference of the Ministers of Energy of the Member States of the Council of the Baltic Sea States (CBSS) (Stavanger 1.12.1998) defined the goal of the energy co-operation of the Baltic Sea region: effective, economically and environmentally sound and more integrated energy systems in the region.

The second Conference of the Ministers of Energy of the Member States of the Council of the Baltic Sea States (CBSS) made the decision on establishing Baltic Sea Region Energy Co-operation, BASREC. They also declared that the Group of Senior Energy Officials, GSEO, was to steer the co-operation:

GSEO shall, on the basis of the guidelines given by the Energy Ministers, be responsible to evaluate the recommendations for further work and decide upon priorities and activities to be followed up, as well as the organisation of these activities and secure adequate reporting to the Energy Ministers.

This organisational structure of co-operation in the energy field will be reviewed no later than by the end of 2002 (3 years).

The ministers decided further that a special energy secretariat service should be set up within the framework of the CBSS, reporting to the GSEO and that the secretariat would be financed by the Nordic Council of Ministers, the European Commission and, if needed and appropriate, by the CBSS or its member countries,

The ministers and the European Commission identified the regional electricity and natural gas markets, the climate change, energy efficiency and use of renewable energy sources as priority areas in the co-operation. The European Council of Feira in June 2000 gave BASREC the task to act in the framework of EU Northern Dimension Action Plan.

This report to the ministers covers the BASREC activities during the period from the Ministerial Conference in Helsinki in October 1999 to the Ministerial Conference in Vilnius in November 2002.

2 Processes and activities influencing the energy markets in the Baltic Sea Region

The changes in the political framework conditions at the beginning of the 1990's and the upcoming EU enlargement have provided new possibilities for the energy sector in the region. The measures based on the Kyoto Protocol will also influence profoundly the energy sector in the region. The challenge for energy policy decision-makers, administrations and energy sector actors is how to take in the best way avail of the new possibilities and meet the challenges facing the political decision makers, administrations in the countries and energy sector companies.

The growth of the demand for primary energy was quite slow in the region during the reporting period. A longer-term outlook steered the discussions, plans and decisions. Most BSR countries are expecting the need for energy import to grow.

The current energy infrastructure seems to be able to support the regional development in the short run. Some additional electricity production and energy transmission capacity will, however, be needed in the near future. The preparations for decision-making on many major infrastructure investments have been started. In the oil transport sector, investment activity has been considerable.

The joint study "*Gas and Electricity in the Baltic Sea Region*" of BALTREL and Baltic Gas, supported by the EU TEN programme, gives extensive market information and an analysis of several scenarios for the future of the gas and electricity markets. The numerous conclusions and recommendations included in the report give an impetus to the continuation of the dialogue between

the industry and the governments of the CBSS member countries.

The intensive work on legislative and regulatory amendments towards more open markets and restructuring of the industry to meet the new framework conditions characterised the development in the energy field during the reporting period.

Many decisions were made and substantial preparatory work was done in view of new directives, regulations and programmes within the EU to develop a long-term, and sustainable approach to energy supply and demand: a new electricity and gas market directive, regulation on conditions of access to the network, a directive concerning the use of renewable energy sources in power production, the Green Paper on energy supply, proposals for directives on energy performance of buildings, combined heat and power production, biofuels, and on improvement of the security of oil and gas supply. Other important documents are the Communication on the European energy infrastructure, incl. new TEN Guidelines of the European Commission, the proposal for "Intelligent Energy Europe" Programme, and the 6th RTD Framework Programme. All of these influence the work of the energy authorities and market actors, also giving additional tasks to regional energy co-operation.

The implementation of the EU gas and electricity market directives was a central task of the EU and EEA member States. The electricity and gas market directives influence the energy trade of all EU and EEA member countries and member candidate countries with each other and with Russia. All the accession countries to the

EU in the Baltic Sea region reached the point of fulfilling the accession criteria concerning energy issues. The process of a step-by-step deregulation was going on and the markets were both implementing and preparing for the implementation of the respective EU directives.

The changes that took and are taking place in the framework conditions in the energy market imply rearrangements in the energy industry, aiming at improvements in the competitive situation and at a better capacity to meet the environmental requirements. Restructuring is also leading to changes in ownership (public/private), growing company size through acquisitions and mergers, and strategic alliances. One aspect of the restructuring process is unbundling of the function of the Transmission System Operator from the main utilities. The influences extend both to the supply side of the market and to the demand side.

Market actors emphasise the importance of a dialogue with the governments and the need for clear political aims in the energy issues, with stable, fair and consistent framework conditions for smooth completion of the transition to open markets.

The role of the Kyoto Protocol in the development

The EU ratified the Kyoto Protocol. All BSR countries signed and have ratified it or are in the process of doing so in the near future. The Ministers of Energy of the Baltic Sea Region at the conference on the co-operation in the Baltic Sea region in Helsinki in 1999 recommended that further work should be done with a view to make a decision on a Baltic Sea region testing ground for international co-operation in the use of flexible mechanisms. In accordance to that the Nordic Energy Ministers decid-

ed in June 2002 to establish a Testing Ground Facility. This is one of the necessary prerequisites for starting the implementation of Joint Implementation projects in the region.

Also national policy actions to fulfil the climate policy obligations will influence the development of the energy markets. The countries may adjust their energy policy strategies accordingly by new regulations and rules and financial actions that push the market actors to shift away from coal, to increase the use of natural gas and renewable energy sources, and to give more weight to energy efficiency improvements. The major change in the primary energy outlook of the BSR countries involves a clear increase in the share of gas and renewables in satisfying the growing energy demand already in the short term.

Energy efficiency and renewable energy sources

All CBSS countries of the region had programmes for the promotion of energy efficiency and the use of renewable energy sources. Public support is needed to reach the programme goals. Shortage of funds is a barrier to the targeted development in many cases. Development and adoption of new technologies is going on.

Many CBSS countries are traditionally strong in district heating and combined heat and power production. In some parts of the region the needs for renovation and new construction are huge, in other parts investments needed develop more evenly. Some distortion and inefficiency of the markets are reflected by the fact that due to insufficient steering district heating is in some cases replaced with various individual heating modes.

The dominating renewable fuel in the region is wood in its various forms. The use of wood has a big growth potential both in heating plants and in combined heat and power production. Sufficient implementation of actions in these fields calls for extensive capacity building among the actors involved on all levels.

EU–Russia energy dialogue

The energy dialogue between the EU and Russia was started in 2000 and covers areas of interest of the co-operation in the Baltic Sea region. The main regional interest is in the topic of energy investments and in financing of them, this being a crucial factor from the security of supply point of view, and the main principles and the development of the energy trade between Russia and the EU Member States. The BASREC member countries have extensive possibilities to act as active partners in energy efficiency projects, in the use of renewable energy sources and in energy technology.

Northern Dimension Action Plan

The first Northern Dimension Action Plan of the EU was approved in 2000 in Feira, Portugal. Energy issues make a heavy element in the Plan. The Action Plan points out the BSR as a potentially important dimension for the EU as a source of gas and as a transit region for gas and oil. Special attention is paid in the Plan to the investment conditions in new infrastructure and to the possible public financial support to the investments. BASREC was given the role of a partner in the energy sector activities of the EU ND Action Plan. The implementation of the Action Plan has the potential of deepening the integration of Russian and especially northwest Russian energy sector with the rest of the Region.

3 General BASREC activities

GSEO exercised its steering function of BASREC activities at 14 meetings during the reporting period. The chairmanship rotated following that of the CBSS: Norway in 2000, Germany in 2000-01, Russia 2001-02, and Finland in 2002.

At the beginning of 2000 GSEO established a **Work Programme** and set up **ad-hoc groups in the priority areas** specified in the Helsinki Communiqué: gas and electricity markets, energy efficiency and climate change.

GSEO **steered** the activities of the ad-hoc groups **through** the approval of the **groups' work plans** and **followed up** the implementation **through reports** from the groups.

GSEO held **topical meetings** inviting representatives of industry, the European Commission, the Energy Charter Secretariat, and the International Energy Agency to give presentations and participate in discussions.

GSEO made initiatives and took special actions in the process of **integrating the Baltic 21 energy sector activities into the BASREC work**.

GSEO chairmen participated in **meetings of CSO informing about BASREC** activities as called for in the Helsinki Communiqué.

The **BASREC Secretariat** carried out **GSEO decisions** and gave secretarial **support to the ad-hoc groups**. The Secretariat maintained the information platform as a part of the **Internet home pages** of CBSS.

The conference “**Energy – the Key to the New Millennium**” was a joint event of BASREC and its interest groups in June 2001 and was organised in a close co-operation with the Swedish EU Presidency. The presentations of the representatives of energy authorities, gas and power industry, financial institutes, and international organisations highlighted the status and outlook of the energy markets in the region.

Members of GSEO and the ad-hoc groups as well as the secretariat visited events organised by the industry (BALTREL, Baltic Gas), other international energy organisations, and NGOs **giving presentations and disseminating information** of BASREC’s activities. The energy sector activities of Baltic 21 energy were an integrated part of BASREC work. In this respect the work concerning energy indicators, bio-energy and energy efficiency and CHP were especially in focus.

4 Activities of the ad-hoc groups and task force

GSEO decided to set up ad-hoc groups in the four priority areas: electricity markets, natural gas markets, climate change, and energy efficiency. In addition, a joint task force on the bioenergy was established in co-operation with the Nordic Council of Ministers. Co-operation in the priority areas with groups under the Nordic Council of Ministers has been fruitful.

4.1 Electricity markets

The Helsinki Communiqué calls for **co-operative actions to support the step-by-step approach to harmonised framework conditions and a fully integrated electricity market.**

GSEO gave the task to the **BASREC ad-hoc Group on Electricity Markets**, co-chaired by Norway and Estonia, to consider in its activities the development of common rules of reciprocity, tariff principles, market mechanisms, role of independent system operators, harmonisation of technical standards and the environmental framework. These measures would contribute to the removal of barriers to the necessary and large infrastructure investments and to making the industry interested in investing.

The ad-hoc Group on Electricity Markets addressed these topics in several ways. The Group had 9 regular meetings, two joint meetings with representatives of BALTREL and 5 seminars or workshops during the reporting period.

The main topics at the meetings were **harmonisation of the power market**, follow-up of the proposed **changes in the EU-directives** and the **TEN Guidelines**, the role of **Transmission System Operators**, and the **use of renewable energy sources** in power production and input to the ministerial meeting.

At the **seminars** the following topics were presented and discussed: **harmonisation of the BSR electricity markets, Regulators and Transmission System Operators in the Baltic electricity market, the EU-directive on the promotion of electricity from renewable energy sources, and renewable energy certificates.**

The seminars shed some light on the status and progress of the market liberalisation process in the countries of the region and on the introduction of regulations and measures pertaining to the use of renewable energy sources in the power market. Invited guests and specialists repre-

sending the EU Commission, authorities and the industry participated in the seminar.

The NCM study *“Harmonisation of the electricity markets around the Baltic Sea”* looks into the need for equal conditions in connection with an integration of electricity markets around the Baltic Sea. This study has been a basis for further discussions in the ad hoc Group.

The Group arranged **two joint meetings** with representatives of the regional power industry. In these meetings **BALTREL** reported in *“Gas and Electricity in the Baltic Sea Region”* of its **joint work with Baltic Gas** on the electricity and gas markets in the Region. The **conclusions** of that work were submitted to the energy authorities represented in the BASREC ad-hoc Group on Electricity Markets **for consideration in the improvement of the framework conditions**. The conclusions introduce proposals for **removing the major barriers** to the market development and how to meet e.g. the challenges of **future investments** in the infrastructure.

The role of the **Transmission Systems Operators (TSOs)** was identified as central in the further development of the market. Therefore the Group chose the TSO's as the topic of a study. The study concludes in **recommendations** regarding e.g. the role of Government in promoting the development, the ownership structure of TSOs, tariff methodologies, contract duration, standardisation of procedures and barriers to financing transmission system investments. The conclusions of the study are used in planning the future activities of BASREC concerning the electricity markets.

BASREC ad-hoc Group on Electricity Markets representatives gave **presentations** at seminars of BALTREL and the IEA.

In parallel with the rest of the regional activities in this area the Baltic Council of Ministers' Committee of Energy (BCoM CoE) worked to the direction of opening of the **Common Baltic Electricity Market (CBEM)**.

4.2 Natural gas markets

The Helsinki Communiqué calls for increased security of energy supply through more integration of the gas sector in the region implying stable and sufficiently favourable framework conditions. The ministers also urged BASREC to develop a dialogue with the industry based on the EU-financed joint study *“Gas and Electricity in the Baltic Sea Region”* of BALTREL and Baltic Gas.

GSEO gave the task to the **BASREC ad-hoc Group on Gas Markets**, co-chaired by Germany and Russia, to carry out activities along the lines of the Communiqué and to also pay attention to the interoperability conditions in the regions, as well as to take the environmental perspective into consideration.

The ad-hoc Group on Gas Markets addressed these topics in its 5 regular meetings, in one joint meeting with representatives of Baltic Gas and BALTREL, and in one workshop with Baltic Gas during the reporting period.

The main topics at the meetings were the **status and outlook of the gas market** in the BASREC countries, monitoring of the **implementation of the EU gas market directive and the regulatory aspects concerning the construction of offshore pipelines**.

The joint meeting as well as the joint **workshop with Baltic Gas** were arranged for the dissemination of the results of the study concerning the **interaction between the future gas and power markets** in the Region. The results show that enhanced exchange of information between the governments and the industry can help removing barriers from the way to more integrated natural gas markets.

As the development of the gas infrastructure in the region implies installation of new offshore **pipelines** the ad-hoc Group had a **study made on regulations concerning laying offshore gas pipelines in the Baltic Sea Region**, including regulations concerning the **environmental impact assessments** of such installations. The study resulted in the identification of **barriers hampering the construction of offshore pipelines**: in the regulatory, institutional, and administrative frameworks and technical rules. These barriers could be diminished through increased transparency regarding the harmonisation of technical rules, regulations, as well as institutional and administrative procedures.

The ad-hoc Group on Gas Markets contracted a consultant for producing a **study concerning the consequences of the implementation of the EU gas market directive** to give additional background to the discussion on the gas market outlook. The first draft report gives a review of the status and consequences on the market, and of the implementation of the existing gas market directive in the EU member and accession countries and assesses preliminarily the possible consequences of the foreseeable developments as regards the gas supplies to the region.

4.3 Climate change

The Helsinki Communiqué calls for further work in view of making a decision on a Baltic Sea Region Testing Ground in the use of the flexible mechanisms of the Kyoto Protocol, for voluntary actions to get some JI projects started, and for work pertaining to capacity building to ensure proper implementation of the mechanisms.

GSEO instructed the BASREC **ad-hoc Group on Climate Change**, co-chaired by Russia and Sweden, to prepare a plan for implementation of some AIJ/JI projects, to involve NIB/NEFCO for possible investment activities and to take actions in capacity building and development of common understanding.

The ad-hoc Group on Climate Change had 10 regular meetings, 6 workshops, and one conference during the reporting period. The topics of the **meetings concentrated on** the main areas in the pursuance of the Testing Ground target i.e. **tools and procedures needed in the implementation of the Kyoto Protocol**: an agreement, a model contract package, and a Joint Implementation (JI) Handbook.

Workshop

The first step of the Group in **capacity building** was a **workshop** for relevant representatives of the energy and environment administrations of the BASREC countries and representatives of BALTREL on the implementation of the work plan of the Group, including a framework agreement, a handbook for baselines, verification, a NIB/NEFCO JI Facility, and an emissions trading simulation game.

Emissions and electricity trading simulation game

The ad-hoc Group organised an **emissions and electricity trading simulation game** (workshop) in co-operation with IEA. The BASREC countries and power companies showed great interest in the game. The main objective was capacity building of the participants. Some insights of problems and prospects of emissions trading were also achieved.

Joint Implementation (JI) Handbook

The ad-hoc Group on Climate Change published a **Joint Implementation (JI) Handbook**. The handbook's information on requirements that have to be fulfilled when implementing JI projects will play an important role in **improving the knowledge of Joint Implementation and the capacity to apply that** among the stakeholders in the BSR.

The Group arranged **workshops** in Archangel, Riga, Tallinn, Warsaw and Vilnius to introduce the JI Handbook **to local actors** involved in JI projects.

Framework Agreement between governments on a Testing Ground

The Group prepared a proposal for an **agreement for the Participating Governments to establish a Testing Ground** for the Baltic Sea Region to gain experience of and facilitate the use of JI under Article 6 and Emissions Trading (ET) under Article 17 of the Kyoto Protocol and to implement pilot projects.

The objective of this proposal on further co-operation was to gain experience, develop methods and procedures, collaborate in addressing administrative and financial barriers, ensure the issue and transfer of greenhouse gas

credits, implement projects early and be offered new financing.

Model Project Agreements for JI-projects

The Group developed a **Model Project Agreement** that should serve as a guide to all parties, including private sector parties in agreeing **on the implementation of JI projects**. It specifies in detail such elements as the responsibilities, procedures, transfer of funds/investment, liability in case of default, monitoring and verification, baseline, distribution and transfer of credits, and reporting requirements.

Conference on the Testing Ground

The Group organised the **BASREC Conference on the Testing Ground** in St. Petersburg in May 2002 with the purpose of further capacity building, information dissemination of the results of the work done for the various elements in the work plan, and for getting response from the participants of the conference, which was well attended with over 150 experts from the energy and environment administrations and energy companies in the region.

4.4 Energy efficiency

The Helsinki Communiqué calls for continued regional co-operation by specifying the priorities among the numerous options in this area, including combined heat and power production.

GSEO specified the framework for the activities of **ad-hoc Group on Energy Efficiency**, co-chaired by Denmark and Poland, with the need to investigate the possibility to develop new financial instruments suited for energy efficiency projects, to co-ordinate activities

with other international organisations, to address the development of CHP, and to map energy efficiency projects in Northwest Russia, the Baltic States and Poland.

The ad-hoc Group on Energy Efficiency had 9 regular meetings and arranged 7 seminars or workshops during the reporting period. The meetings were used for planning and steering the other activities of the Group.

Due to overlapping interests of several regional or **international energy organisations** the issue of **co-operation** and **avoidance of duplication of work** between these organisations was given a high priority in the work plan. A **study** was made for mapping the profiles of relevant actors. The study concluded in many recommendations for the **improvement of co-operation** and cutting the risk of duplicated use of resources.

The Group arranged a **workshop** on 23 October 2002 **with** representatives of **other energy organisations** (e.g. IEA, Energy Charter Secretariat, European Commission) with regional interests for strengthening the exchange of information and developing ideas for further co-operation.

Financing mechanisms for small energy efficiency projects

Since difficulties of financing have been identified as a common barrier to realising **energy efficiency investments** in the region, the Group chose the **financing mechanisms** as one of the priorities in its work plan. Various financing mechanisms and experiences of their use were presented and discussed in five **workshops** that were arranged in Archangel, Riga, Tallinn, Vilnius, and Warsaw. These workshops were organised back-to-back with the ad-hoc Group on Climate Change and they also served as a means of **capacity building for the imple-**

mentation of JI projects relating to energy efficiency improvements

Joint regional energy efficiency event

The Group initiated a **survey of the modes of promoting energy efficiency** in the BASREC countries in order to be able to specify the eventual potential for joint promotional activities in the region. The outcome of this survey may be used as background information for future activities in developing the theme.

CHP handbook

The Group addressed the topic of **combined heat and power production** (CHP) with presentations and discussions at its meetings, and by publishing a **CHP Handbook**. This handbook is **targeted at decision-makers** on local and regional level for adding to the basic information necessary when decisions between alternative heating systems are made. The foreseeable requirements of the coming CHP directive were taken into consideration in the contents of the handbook. The handbook was translated from English into Polish and Russian.

In-depth energy efficiency review in Estonia

Co-operation between **BASREC and the Energy Charter Secretariat** was exercised in a concrete joint venture when the **in-depth energy efficiency review** was carried out **in Estonia**. The review consists of an overview of the legislative, regulatory, and administrative bases for energy efficiency improvements as well as descriptions of the various actors and measures applied in the market. The review concludes in recommendations for further actions in improving efficiency in the production and use of energy.

4.5 Bioenergy

The Helsinki Communiqué emphasises the importance of renewable energy sources in ensuring the security of supply and recommends further development of policies and technologies to support a more extensive utilisation.

Biomass is a predominant regional renewable energy source besides hydropower, and has the biggest growth potential in the Baltic Sea region. Experience and technologies are available in some parts of the region for building efficient and commercially competitive energy systems based on biomass, and to be transferred to other parts, where the development of proper market conditions needs this kind of support.

GSEO decided upon a joint *Study on regional biomass market framework conditions* with the Nordic Council of Ministers. An ad hoc working group, chaired by Sweden, was set up to steer the work. The purpose of the survey was to gather information on the status of the use of biomass in energy production and to identify barriers to the growth in the use.

The survey reveals deficiencies in many parts of the chain from the fuel source to the end-user, e.g. in the infrastructure, technology, regulatory environments and capacity of the market actors. Recommendations were presented for topics of further regional co-operation e.g. in the areas of capacity building, development of standards to achieve market harmonisation, technologies in production, transport, combustion and use of biomass and biofuels, joint implementation of bioenergy projects, and an increased and more efficient co-operation in research, development, demonstration and innovation.

Initiating the activities in the bioenergy field with this survey meant also a concrete action in the integration of the energy sector activities of Baltic 21 to the BASREC work, as provided for by the Helsinki Conference in 1999.

5 Financing

The Helsinki Communiqué specifies the financing: *“The secretariat will be financed by the Nordic Council of Ministers, the European Commission and, if needed and appropriate, by the CBSS or its member countries.”*

During the reporting period 2000-02 The **Nordic Council of Ministers** and the European Commission were the main financiers of BASREC. In 2000-01 the funding was sufficient to cover the basic functions of the secretariat and the groups. In 2002 close to 50 % of the financing was provided from the **EU Synergy Programme**. Other contributors were the NCM and several **individual BASREC member countries**. This made it possible to carry out quite extensive project activities in 2002. Estonia, Latvia, and Lithuania, as well as Baltic Gas and the Energy Charter Secretariat contributed to these project activities with their in-kind financial inputs. Norway and Sweden provided their national contributions during the whole reporting period.

The activities co-financed by the Synergy Programme were unbundled from the general GSEO activities to a separate BASREC 2002 project, steered by a steering group consisting of the members of GSEO, representing the 11 member countries of CBSS.

6 Conclusions

The BASREC co-operation has provided the CBSS member countries with a forum to build up a regional view of the energy policy strategies. The networks and the BASREC's organisational structure give administrations and business actors in the energy sector a natural base for analysing the possibilities to develop the market framework and rules in order to effectuate the energy supply and to reduce environmentally problematic impacts of energy production, use and transmission.

The upcoming EU enlargement, the implementation of new framework conditions for the energy sector through international agreements and rules and the growing need for energy trade between the enlarged EU and its neighbours influence the Baltic Sea region. It is extremely important that the political strategies and framework conditions support as consistently as possible the market developments and the chances to exploit the new situation favourably. As the mandate of BASREC is interim and its continuation depends on the CBSS countries and the European Commission, the activities can be concluded any time when the need for a regional co-operation forum is no longer evident.

In addition to a well functioning network and a fruitful dialogue between energy-sector administrations, the CBSS member countries and with representatives of energy sector business actors in the region, BASREC, and especially the BASREC 2002 project, have conducted

several studies, analysed the status and possibilities of development in energy policy strategies in the region, published handbooks and studies, and organised seminars and workshops where regional problems and development possibilities in the energy sector have been analysed. All these activities have resulted in a better understanding of the actions needed in order to develop the framework conditions of the energy markets and sustainability and to reduce the environmental impacts in the energy sector. Many subjects concerning development of electricity and gas markets, energy efficiency and renewable energy sources will, however, need further work before practical results can be expected.

The most advanced single proposal drafted during the period 2000 – 2002 is the project for a testing ground for the Kyoto Protocol's flexible mechanisms. The ad hoc Group on Climate Change has worked on a proposal for an agreement on the establishment of this testing ground. The establishment of the testing ground has been met with wide acceptance in the BASREC member countries. The aim is to establish a Testing Ground for the Kyoto Protocol's flexible mechanisms in the Baltic Sea region in 2003 with pilot investment projects. In addition GSEO and its ad hoc groups have prepared, in order to continue the work started in 2000 – 2002, several project proposals for developing electricity and gas markets, energy efficiency and CHP and technologies and markets of renewable energy sources.

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